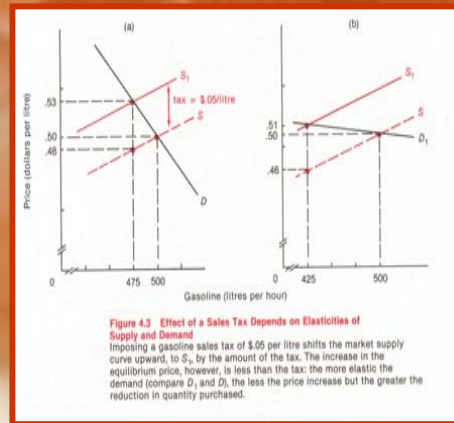


Charting A Course for Washington's Economic Future: Developing a Fiscal Foundation for Economic Success



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Seattle, Washington / June 14, 2006

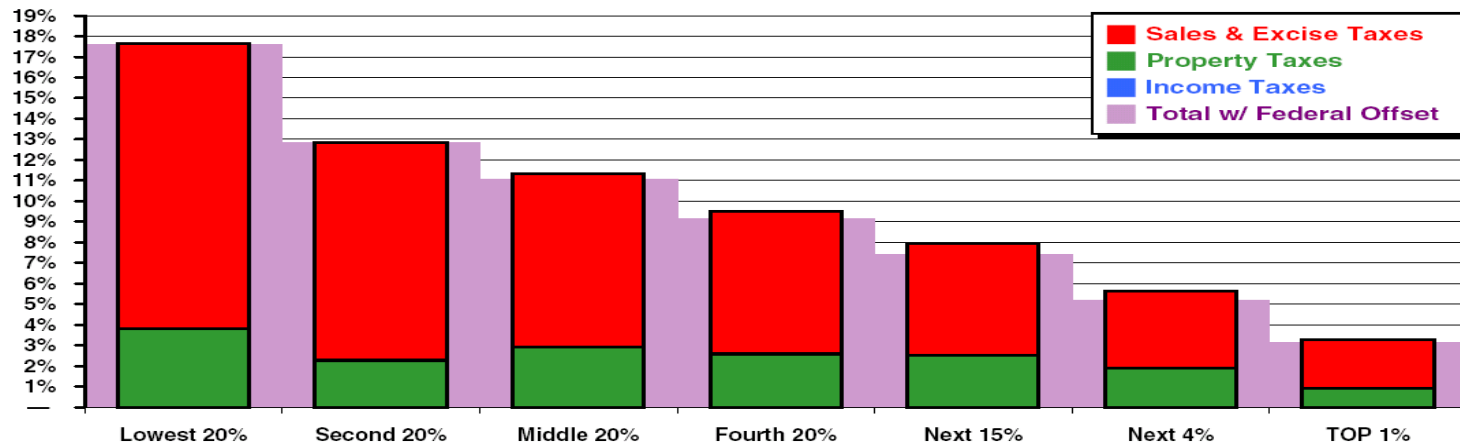
A brief Look at the current State and Local tax structure



Washington

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$31,000	\$31,000 – \$48,000	\$48,000 – \$75,000	\$75,000 – \$143,000	\$143,000 – \$922,000	\$922,000 or more
Average Income in Group	\$9,600	\$23,200	\$38,500	\$60,000	\$98,700	\$225,100	\$1,655,400
Sales & Excise Taxes	13.8%	10.6%	8.4%	6.9%	5.4%	3.7%	2.4%
General Sales—Individuals	4.9%	4.2%	3.5%	2.9%	2.3%	1.6%	0.9%
Other Sales & Excise—Ind.	4.1%	2.7%	2.0%	1.6%	1.2%	0.8%	0.4%
Sales & Excise on Business	4.8%	3.8%	3.0%	2.4%	1.9%	1.4%	1.1%
Property Taxes	3.8%	2.3%	2.9%	2.6%	2.5%	1.9%	0.9%
Property Taxes on Families	3.7%	2.2%	2.8%	2.5%	2.4%	1.6%	0.5%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.4%
Income Taxes	—	—	—	—	—	—	—
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	—	—	—	—	—	—	—
TOTAL TAXES	17.6%	12.9%	11.3%	9.5%	7.9%	5.6%	3.3%
Federal Deduction Offset	–0.0%	–0.0%	–0.3%	–0.4%	–0.5%	–0.4%	–0.1%
TOTAL AFTER OFFSET	17.6%	12.8%	11.1%	9.2%	7.4%	5.2%	3.1%

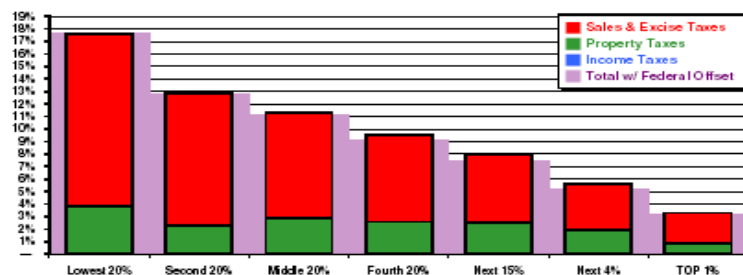
Note: Table shows 2002 tax law at 2000 income levels.

Washington and its neighbors

Washington

State & Local Taxes in 2002

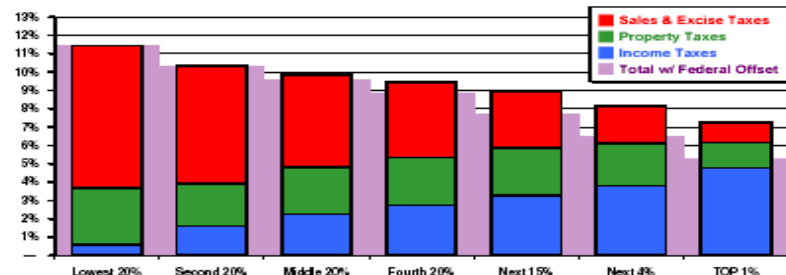
Shares of family income for non-elderly taxpayers



U.S. Averages

State & Local Taxes in 2002

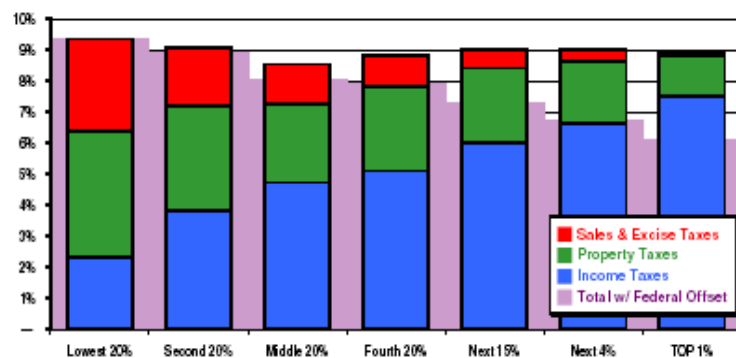
Shares of family income for non-elderly taxpayers



Oregon

State & Local Taxes in 2002

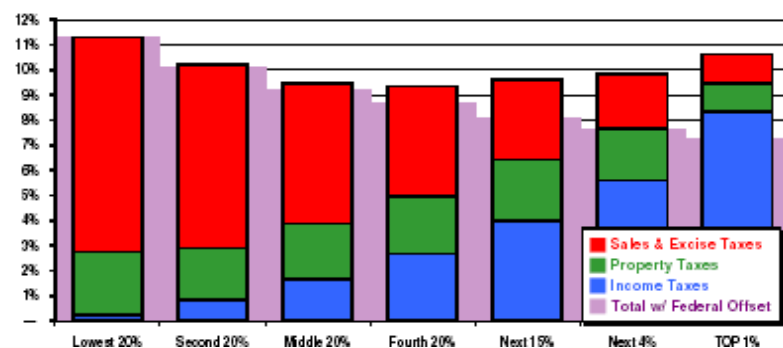
Shares of family income for non-elderly taxpayers



California

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers

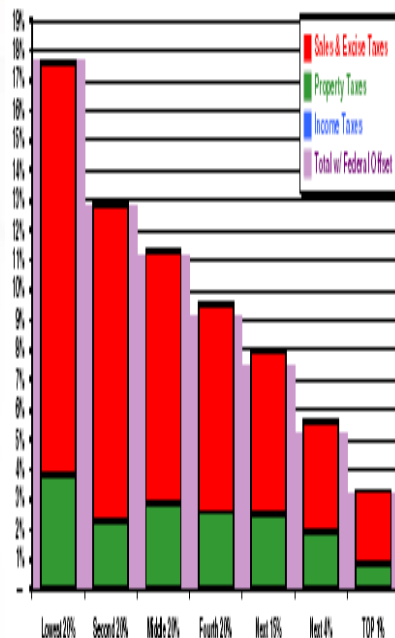


Who Pays State and Local Taxes— *Adjusted to Scale*

Washington

State & Local Taxes in 2002

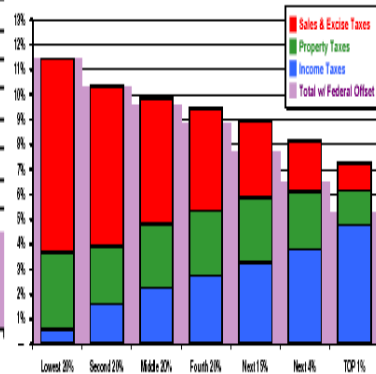
Shares of family income for non-elderly taxpayers



U.S. Averages

State & Local Taxes in 2002

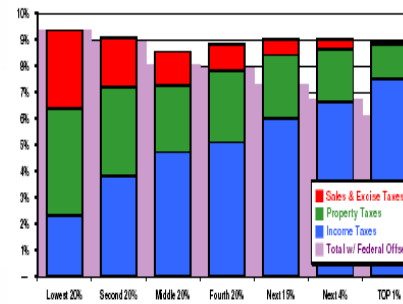
Shares of family income for non-elderly taxpayers



Oregon

State & Local Taxes in 2002

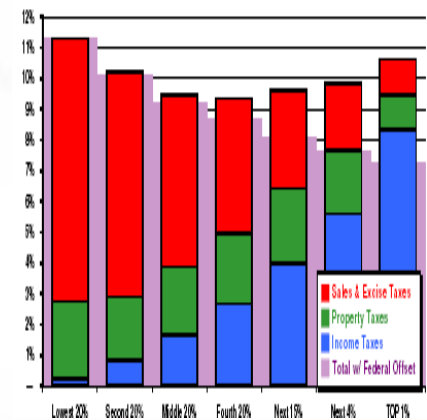
Shares of family income for non-elderly taxpayers



California

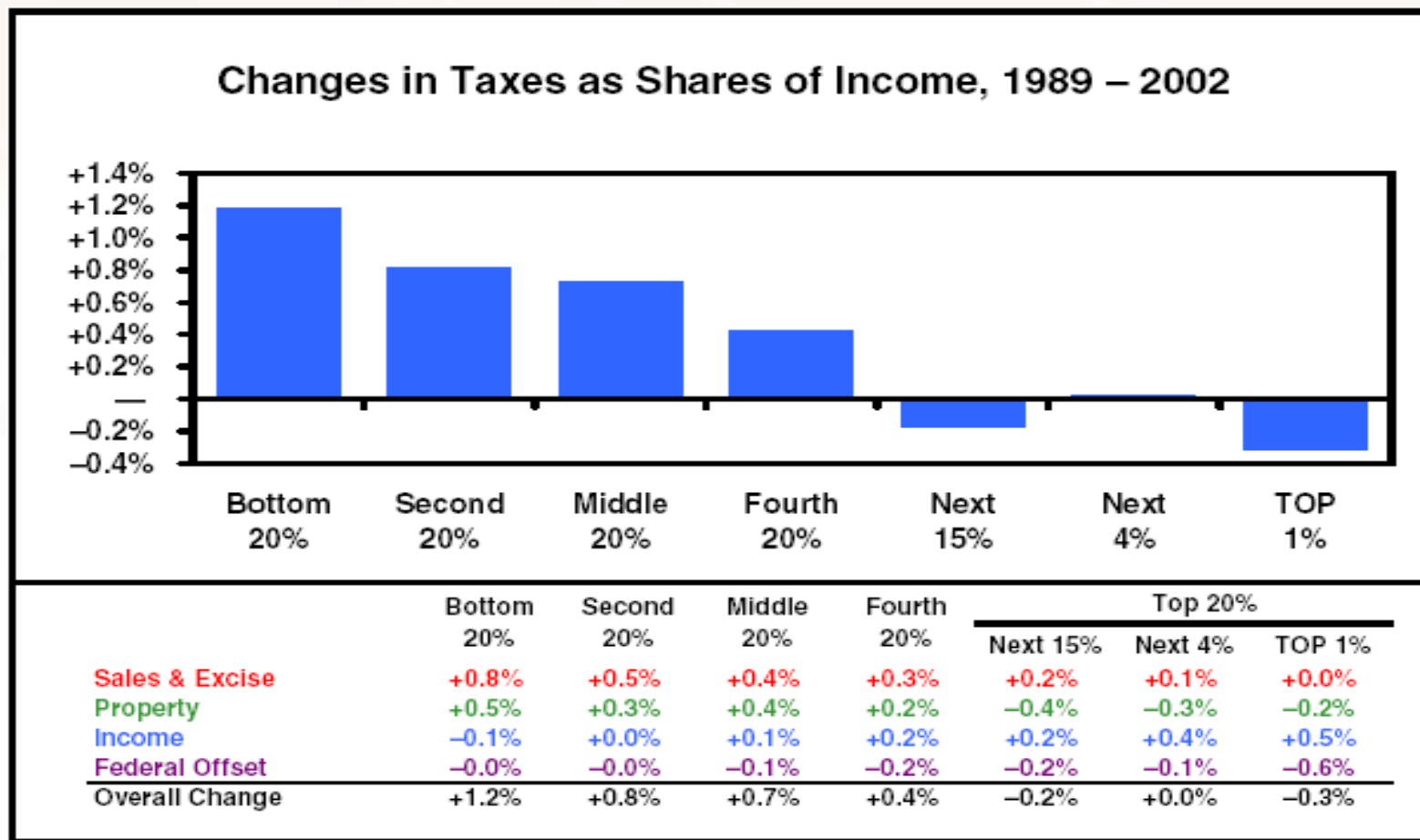
State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers

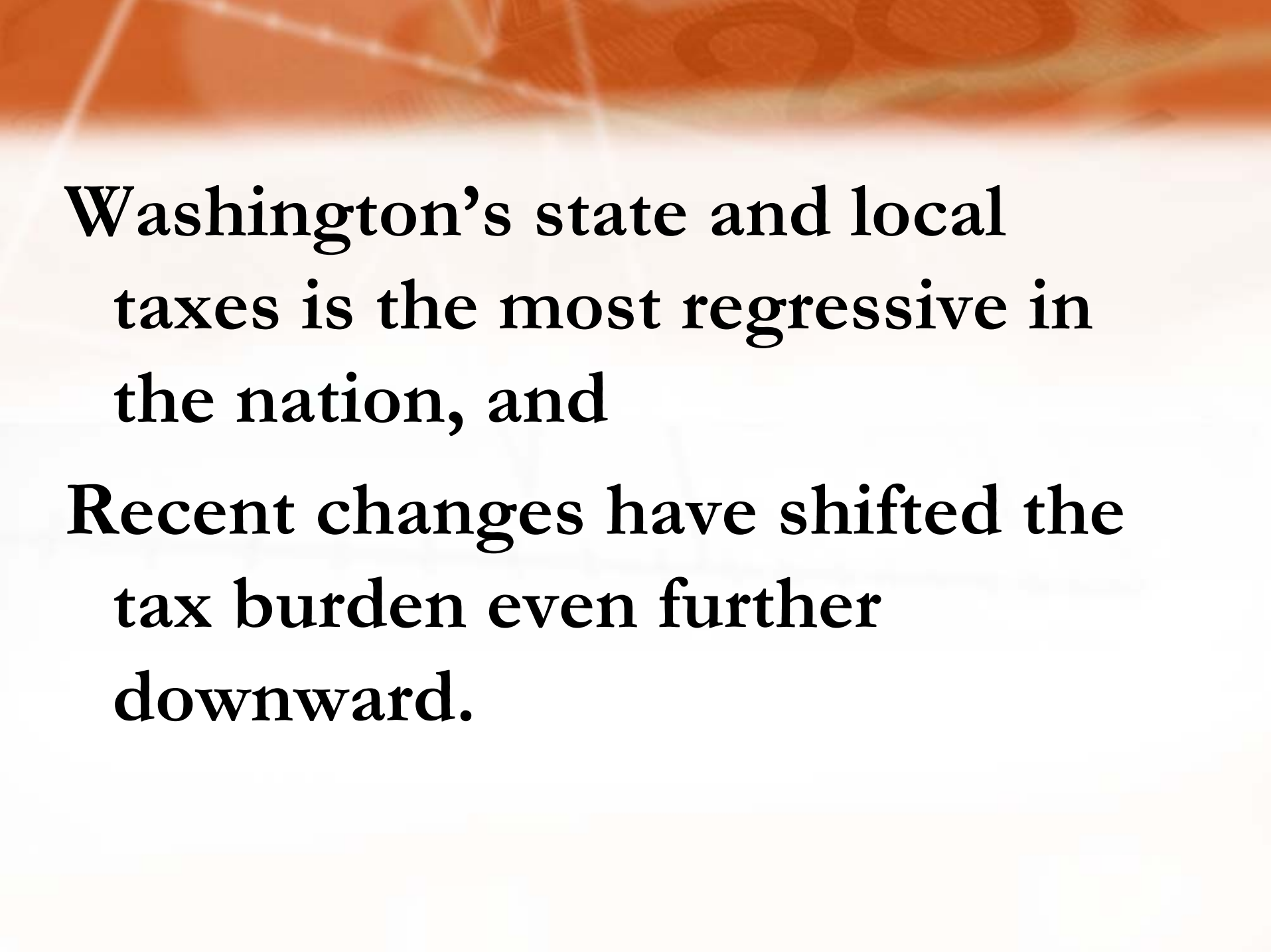


Washington

State and Local Tax Changes, 1989-2002



Source: [Who Pays?: A Distributional Analysis of the Tax Systems of All 50 States, Second Edition](#), Institute on Taxation and Economic Policy, 2003.



**Washington's state and local
taxes is the most regressive in
the nation, and**

**Recent changes have shifted the
tax burden even further
downward.**

The Ten Most Regressive State Tax Systems

Taxes as shares of income by income for non-elderly residents

Income Group	Taxes as a % of Income on			Poor/ Top 1%	Middle/ Top 1%
	Poorest 20%	Middle 60%	Top 1%		
Washington	17.6%	11.2%	3.3%	537%	343%
Florida	14.4%	9.8%	3.0%	476%	325%
Tennessee	11.7%	8.9%	3.4%	347%	264%
South Dakota	10.0%	8.4%	2.3%	440%	369%
Texas	11.4%	8.4%	3.5%	331%	244%
Illinois	13.1%	10.5%	5.8%	224%	180%
Michigan	13.3%	11.2%	6.7%	199%	168%
Pennsylvania	11.4%	9.0%	4.8%	238%	187%
Nevada	8.3%	6.5%	2.0%	420%	331%
Alabama	10.6%	9.6%	4.9%	216%	195%

Note: States are ranked by the ITEP Tax Inequality Index. The ten states in the table are those whose tax systems most increase income inequality after taxes compared to before taxes. See page 121 for a full description of the Index.


Washington Taxes are not Designed to Accommodate Growth

Washington State Long Run Elasticity 1975-2001

(Constant Rate and Constant Base)

All Excise Taxes	0.93
Sales Tax	0.93
Use Tax	0.89
B&O Tax	0.96
Utility Tax	0.86
Property Tax	1.10

***In Washington,
only one tax, the
property tax,
grows as fast as
the economy.***





What Policies Influence State Economic Growth?



**Do low
business taxes
lead to
economic
growth?**

Chart A: The 10 Fastest Growing States have Corporate Income Tax Rates Averaging 7.1%

10 FASTEST GROWING STATES	PER CAPITA PERSONAL INCOME GROWTH 1995-2003	U.S. RANK (High to Low)	TOP CORPORATE TAX RATE	U.S. RANK (Low to High)
<i>Wyoming</i>	5.4%	1	No tax	<i>Tied 1st</i>
District of Columbia	5.2%	2	9.975%	48
North Dakota	5.0%	3	10.50%	50
Vermont	4.8%	4	9.75%	46
Massachusetts	4.7%	5	9.50%	45
<i>South Dakota</i>	4.7%	6	No tax	<i>Tied 1st</i>
Minnesota	4.6%	7	9.80%	47
Colorado	4.6%	8	4.63%	8
Maine	4.5%	9	8.93%	40
Nebraska	4.5%	10	7.81%	31
			AVERAGE: 7.09%	

NOTE: States in italic are "no income tax" states; Tax rates are in percent and are those in place January 1, 2004

SOURCE: Income data from U.S. Department of Commerce, Bureau of Economic Analysis; tax rates from Federation of Tax Administrators, www.taxadmin.org.

Chart B: The 10 Slowest Growth States have Corporate Income Tax Rates Averaging 6.25%

10 SLOWEST GROWING STATES	PER CAPITA PERSONAL INCOME GROWTH 1995-2003	U.S. RANK (High to Low)	TOP CORPORATE TAX RATE	U.S. RANK (Low to High)
Delaware	3.8%	42	8.7%	38
Oregon	3.8%	43	6.6%	21
Indiana	3.7%	44	8.5%	35
Idaho	3.7%	45	7.6%	29
North Carolina	3.7%	46	6.9%	23
Ohio	3.6%	47	8.5%	37
<i>Michigan</i>	3.3%	48	<i>No tax</i>	1
Alaska	3.3%	49	9.4%	44
<i>Nevada</i>	3.1%	50	<i>No tax</i>	2
Hawaii	2.5%	51	6.4%	17
			AVERAGE: 6.26%	

NOTE: States in italic are "no income tax" states; Tax rates are in percent and are those in place January 1, 2004

SOURCE: Income data from U.S. Department of Commerce, Bureau of Economic Analysis; tax rates from Federation of Tax Administrators, www.taxadmin.org.

No. In fact-

High growth states actually had comparatively high average corporate income tax rates.

Slow growth states had corporate tax rates below the U.S. average.

But doesn't being "Business Tax Friendly" or being seen as having a favorable Business Climate encourage a states economic growth?

Apparently not.

Chart A: States ranked **MOST** 'Business Tax Friendly'

10 MOST 'TAX FRIENDLY' STATES	U.S. RANK 'TAX FRIENDLY'	PERSONAL INCOME INCREASE 1994-2003	U.S. RANK
South Dakota	1	4.7%	6
Florida	2	3.9%	38
Alaska	3	3.3%	49
Texas	4	4.3%	14
New Hampshire	5	4.4%	11
Nevada	6	3.1%	50
Wyoming	7	5.4%	1
Colorado	8	4.6%	8
Washington	9	4.3%	17
Oregon	10	3.8%	43
		TOP 10 AVERAGE: 4.2%	

Chart B: States ranked **LEAST** 'Business Tax Friendly'

10 LEAST 'TAX FRIENDLY' STATES	U.S. RANK 'TAX FRIENDLY'	PERSONAL INCOME INCREASE 1994-2003	U.S. RANK
Maine	42	4.5%	9
Arkansas	43	3.8%	40
Kentucky	44	4.2%	24
Vermont	45	4.8%	4
Rhode Island	46	4.2%	22
West Virginia	47	4.0%	34
Minnesota	48	4.6%	7
New York	49	4.0%	32
Hawaii	50	2.5%	51
District of Columbia	51	5.2%	2
		BOTTOM 10 AVERAGE: 4.2%	

Over the last decade there was no difference in average growth in the most top 10 most “business tax friendly” and the 10 least friendly states.

As for “Business Climate”...


General Business Climate and State Economic Growth

Site Selection
Magazine's Top 25
States Average Growth:
3.9%

**The 25 Worst Ranked
States Average Growth:
4.3%**

SOURCE: *Site Selection Magazine*, "Site Selection's 2004 Top 25 State Business Climate Rankings," November 2004. U.S. Department of Commerce, Calculations by Richard G Sims

Site Selection's TOP 25 STATES	U.S. RANK	AVERAGE ANNUAL INCOME GROWTH	U.S. RANK
NC	1	3.7%	45
MI	2	3.3%	47
TN	3	3.9%	36
OH	4	3.6%	46
VA	5	4.2%	20
TX	6	4.3%	13
GA	7	4.0%	30
IL	8	3.9%	35
SC	9	4.0%	29
FL	10	3.9%	37
NY	11	4.0%	31
AL	12	3.9%	34
KY	13	4.2%	23
PA	14	4.0%	26
MS	15	4.1%	24
CA	16	4.3%	14
LA	17	4.0%	32
IN	18	3.7%	43
AR	19	3.8%	39
OK	20	4.2%	17
CO	21	4.6%	7
NV	22	3.1%	49
MO	23	3.8%	38
AZ	24	3.8%	40
KS	25	4.0%	27

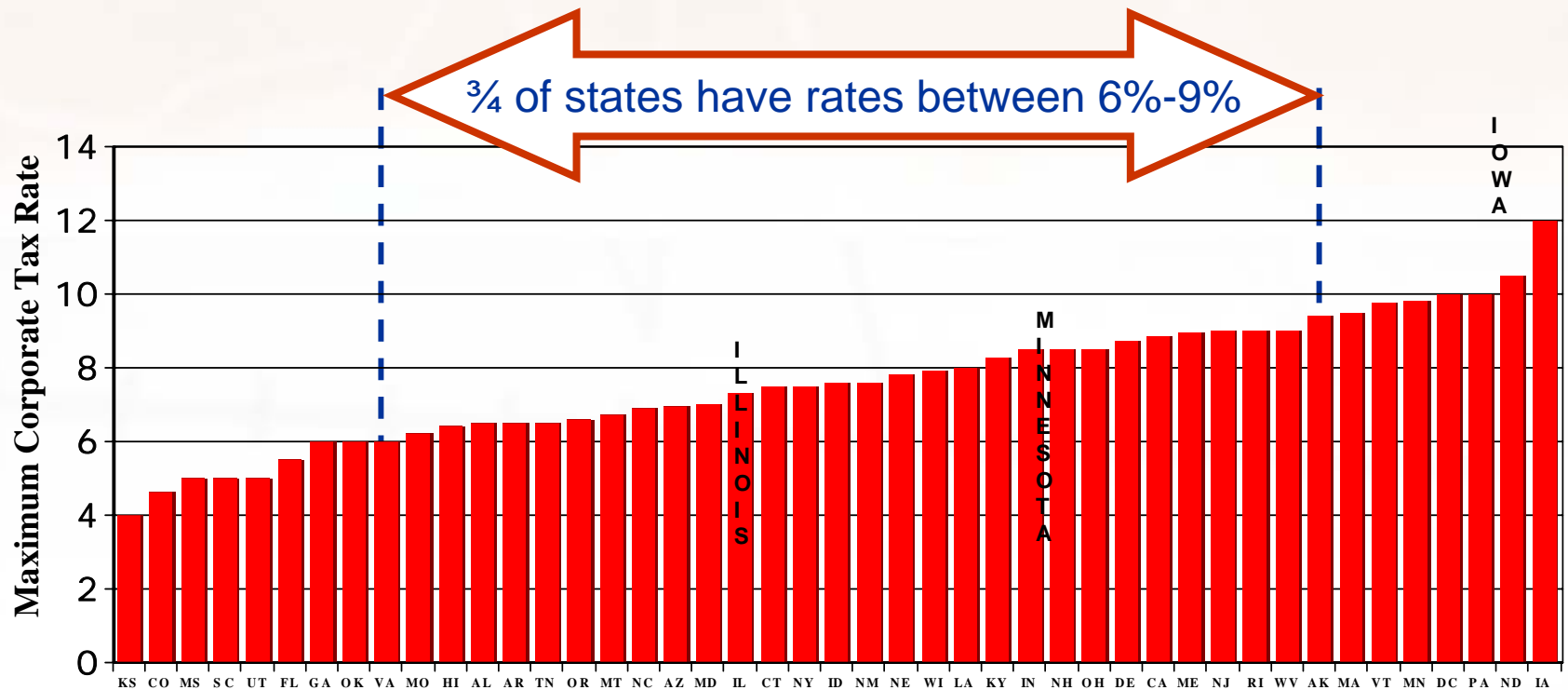


While business climate surveys generate substantial media attention, a high ranking is not necessarily associated with strong economic growth.

**One Reason Corporate Income
Taxes Don't Have Much Influence
on State's Comparative Growth-**

***Rates Simply Don't Vary
Greatly from State-to-State--***

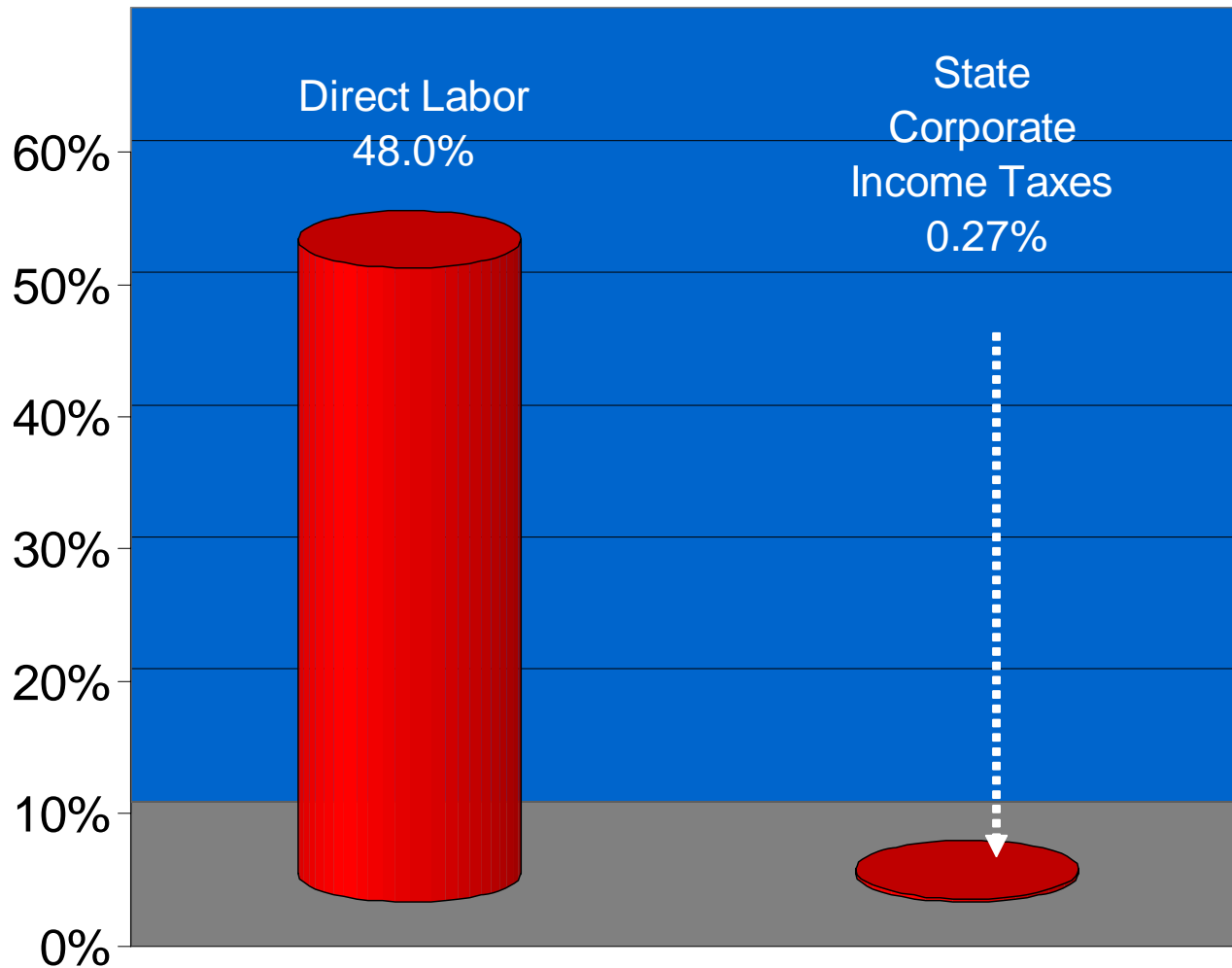
State Corporate Income Tax Rates



The 45 States with a Corporate Income Tax

**Another Reason Corporate
Income Taxes Don't
Determine a State Economic
Growth...**

Shares of Total Business Costs



State and Local taxes on business earnings represents a very small part of total business expenditures. Labor, on the other hand, constitutes about half of business' total outlay.

**How about taxes on
individuals? Don't low
individual taxes affect a
state's growth?**

In general,
states with
high
economic
growth had
higher taxes
than did
slow growth
states.

Of the 15 **FASTEST** Growing States:

- 8 above average taxes
- 7 below average taxes
- 4 in lowest 10 taxing states
- 3 in highest 10 taxing states
- 4 are no income tax states

Of the 15 **SLOWEST** Growing States:

- 4 above US average taxes
- 11 below US average taxes
- 5 in 10 lowest taxing states
- 1 in highest 10 taxing states
- 4 are no income tax states

* Average annual growth in per capita personal income data from Bureau of Economic Analysis.

** Tax Rates and Tax Burdens: In the District of Columbia - A Nationwide Comparison 2002, Government of the District of Columbia, August 2003.

Does Adoption of an Income Tax Kill Economic Growth?

Growth in States that Adopting an Income Tax Compared to States with no Income Tax

States Adopting Income Tax	Year Income Tax Enacted	Per Capita Income Growth						PCI as % of Natl. Average		
		Per Capita Income in Year Tax enacted	Per Capita Income in 1998	Average Annual Growth	National Per Capita Income in Year Enacted	National Per Capita Income in 1998	National Annual Growth	State % of National in Year Tax Enacted	State % of National in 1998	change
New Jersey	1976	\$13,002	\$33,953	4.5%	\$11,000	\$26,482	4.1%	118.2%	128.2%	10.0%
Nebraska	1967	14,787	24,786	1.7%	17,054	26,482	1.4%	86.7%	93.6%	6.9%
Connecticut	1991	31,978	37,700	2.4%	23,485	26,482	1.7%	136.2%	142.4%	6.2%
Maine	1969	13,979	23,002	1.7%	17,054	26,482	1.5%	82.0%	86.9%	4.9%
Pennsylvania	1971	15,362	26,889	2.1%	15,454	26,482	2.0%	99.4%	101.5%	2.1%
Rhode Island	1971	15,503	26,924	2.1%	15,454	26,482	2.0%	100.3%	101.7%	1.4%
Michigan	1967	16,886	25,979	1.4%	17,054	26,482	1.4%	99.0%	98.1%	-0.9%
Illinois	1969	19,418	28,976	1.4%	17,054	26,482	1.5%	113.9%	109.4%	-4.4%
Ohio	1971	15,734	25,239	1.8%	15,454	26,482	2.0%	101.8%	95.3%	-6.5%

5.3%

States without Income Tax	Base Year	Per Capita Income Growth						PCI as % of Natl. Average		
		Per Capita Income in 1991	Per Capita Income in 1998	Average Annual Growth	National in 1991	National in 1998	National Change Over Period	State % of National in 1991	State % of National in 1998	change
Texas	1991	\$21,524	\$25,028	2.2%	\$23,485	\$26,482	1.7%	91.7%	94.5%	2.9%
Tennessee	1991	20,316	23,615	2.2%	23,485	26,482	1.7%	86.5%	89.2%	2.7%
South Dakota	1991	19,164	22,201	2.1%	23,485	26,482	1.7%	81.6%	83.8%	2.2%
Washington	1991	24,415	28,066	2.0%	23,485	26,482	1.7%	104.0%	106.0%	2.0%
New	1991	25,599	29,219	1.9%	23,485	26,482	1.7%	109.0%	110.3%	1.3%
Florida	1991	23,278	25,922	1.5%	23,485	26,482	1.7%	99.1%	97.9%	-1.2%
Nevada	1991	24,649	27,360	1.5%	23,485	26,482	1.7%	105.0%	103.3%	-1.6%
Wyoming	1991	21,959	23,225	0.8%	23,485	26,482	1.7%	93.5%	87.7%	-5.8%
Alaska	1991	25,726	25,771	0.0%	23,485	26,482	1.7%	109.5%	97.3%	-12.2%

2.2%

**If Policies Leading to Low Taxes
Don't Cause Economic Growth,**

What Public Actions Do?

Well, For One....

Elementary & Secondary Spending

TOP 10 STATES IN EDUCATION SPENDING	U.S. RANK K-12 SPENDING PER CAPITA	PERSONAL INCOME GROWTH <i>PER CAPITA</i> 1995-2003		BOTTOM 10 STATES IN EDUCATION SPENDING	U.S. RANK K-12 SPENDING PER CAPITA	PERSONAL INCOME GROWTH <i>PER CAPITA</i> 1995-2003
Alaska	1	3.3%		Idaho	42	3.7%
New Jersey	2	4.4%		Utah	43	4.0%
New York	3	4.0%		Florida	44	3.9%
DC	4	5.2%		Louisiana	45	4.0%
Connecticut	5	4.3%		Mississippi	46	4.1%
Wyoming	6	5.4%		Arizona	47	3.8%
Michigan	7	3.3%		Tennessee	48	3.9%
Minnesota	8	4.6%		Kentucky	49	4.2%
Wisconsin	9	4.2%		Arkansas	50	3.8%
Vermont	10	4.8%		Hawaii	51	2.5%
TOP 10 AVERAGE INCOME GROWTH		4.3%		BOTTOM 10 AVERAGE INCOME GROWTH		3.8%

Average growth for the 50 states and DC: 4.1%

The Dilemma of the Cigarette Tax

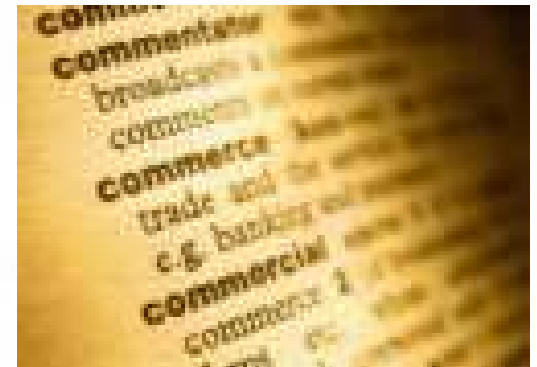
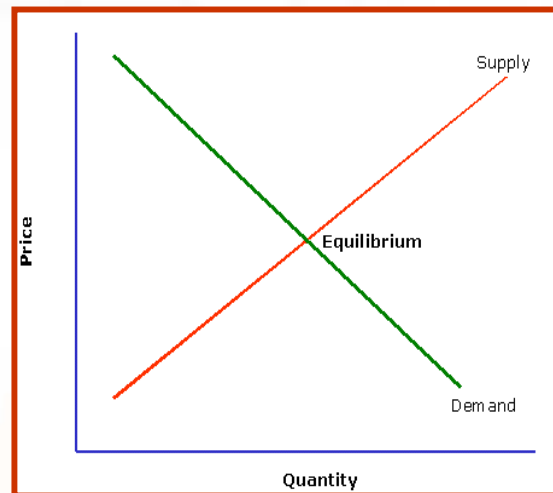
Current Washington Cigarette Tax: \$2 per pack
At one pack a day this equals \$720 per year.

The cigarette tax burden as a percent of income for a smoker earning--

Washington's minimum wage (\$7.16/hour):	3.5%
Washington's middle family income (\$38,500):	1.4%
At \$100,000 per year:	0.5%
At \$1,000,000 per year:	0.05%

Smokers tend to have lower income, lower education and are more likely to be a member of a racial minority than is the general population.

A look at economic interaction between taxes, spending and state economic growth.



The Economic Impacts Associated with a \$100 Million Cut in Individual Income Taxes

Example from Kentucky

	<u>2004</u>	<u>2008</u>
<u>INDIVIDUAL INCOME TAX:</u>		
Employment (000)	2.1	2.3
Pers Inc (Mil Nom \$)	\$59.1	\$139.4

Source: Richard Sims using Regional Economic Models, Inc. model.

The Economic Impacts Associated with a \$100 Million in k-12 School Spending

Example from Kentucky

	<u>2004</u>	<u>2008</u>
<u>K-12 EDUCATION SPENDING:</u>		
Employment (000)	4.4	4.5
Pers Inc (Mil Nom \$)	\$86.5	\$154.6

Source: Richard Sims using Regional Economic Models, Inc. model.

Economic Impacts Associated with Various Taxes and with Education Spending

Economic Losses

Revenue: \$100 Million

	<u>2007</u>	<u>2016</u>
<u>GENERAL SALES TAX:</u>		
Employment (000)	-3.3	-3.4
<u>INDIVIDUAL INCOME TAX:</u>		
Employment (000)	-2.1	-2.3
<u>CORPORATE INCOME TAX:</u>		
Employment (000)	-2.5	-2.6
<u>PROPERTY TAX:</u>		
Employment (000)	-1.5	-1.7

Economic Gains

Spending: \$100 Million

	<u>2007</u>	<u>2016</u>
<u>K-12 EDUCATION SPENDING</u>		
Employment (000)	4.4	4.5

**But aren't tax cuts supposed to
provide more economic
stimulus than an increase in
government spending?**

“I know of no valid economic theory that suggests that tax cuts provide more economic stimulation than would a similar amount of government spending.”

Former Congressional Budget Office Director, Robert
Reischauer

Why does education spending have such a large impact in terms of job creation?

Near-Term:

- Labor intensity
- Local purchase intensity
- Larger share of total business costs

-state corporate income tax = 0.25%

-direct labor cost = 48%

Long-Term:

- Amenity value
- Source of productivity
- Source of competitiveness

CONCLUSIONS

- ✓ Low taxes are not the key to creating jobs and income in a state.
- ✓ Low taxes are associated with low levels of public services.
- ✓ Spending on K-12 education can be a significant contributor to economic growth.